

MEDIUM TERM BUDGET GUIDELINES FOR 2008/09 – 2010/11 FINANCIAL YEAR

1. GENERAL

The Municipal Finance Management Act (MFMA) provides a framework for the preparation of municipalities' budgets and sets out timelines for budget preparations and approval. It provides the basis for the appropriation and management of resources. The District is therefore required to comply with the provisions of the Act in terms of timelines for tabling of draft budgets and approval of budgets.

The current medium term budget provides a working base for compiling your budget proposals. However it should be noted that your current allocation is not guaranteed. The 2009/10 medium term budget preparations gives us an opportunity to move away from an approach informed by historical budget baseline and seeks to ensure that the resource allocation reflects the District's priorities.

Departments are required to conduct an assessment of the current spending, assess current programmes and activities as to whether the spending and programmes gives effect to the developmental objectives expressed in the District's Growth and Development Strategy.

In preparing your budgets, you are requested to budget per programme in line with the GDS, Mayoral priorities and IDP programmes. Department are encouraged to enhance and improve the activities and programmes, and make an effort to ensure that programmes are properly costed.

Clusters are urged to ensure that the IDP review must have an impact on the initial budget process. Clusters must also bear in mind that as we proceed with the 2009/2010 budget, it must feed into the IDP and GDS, all its Business Plans and projects that is anticipated for the 2009/2010 financial year as well as outer years to ensure alignment – 2010/2011, 2011/2012 (3 year medium term budget).

Clusters should note that over budgeting on operating expenditure hampers our service delivery plans as we will be unable to fund IDP projects. The Treasury Cluster will be using prior year actual expenditure as a yardstick to verify that Clusters have budgeted appropriately. We will, however, still operate on a zero base approach. Clusters will be required to present their budgets to ensure alignment to IDP and PMS, accompanied by appropriate cash flow forecasts for both CAPEX and OPEX. Business Plans for 2009/2010 have to be adopted before finalizing the budget to ensure alignment.

Budget proposal preparation

Budget Proposals must take the following factors into account:

- Alignment of programmes and activities to the Districts' priorities;
 - Assessment of the extent to which the current spending is achieving priorities (GDS) and the impact it has on the community.
 - Include reallocation of internal resources within units to reflect changes in strategic direction.
 - Identify areas where cost can be reduced to free-up resources for new or priority programs
 - Identify outcome indicators that respond to the GDS
- Indicative Allocations

The medium term budget for 2008/09 – 2010/2011 provides a working base for the 2009/10 – 2011/2012 medium term budgets cycle.

All Clusters are advised to stay within the indicative allocations as stated below:

INDICATIVE ALLOCATION 2009/2010	
Department	Amount
Political Offices	22,354,705
Municipal Manager's office	8,628,235
Treasury Cluster	30,307,527
Corporate Services	83,624,108
Transport & Infrastructure	47,856,371
Development & Planning	24,727,188
Community Services	73,868,815
Total expenditure	291,366,949

The following factors have an impact on the draft 2009/2010 budgets.

- Changes in key parameters/ratios
- Changes in inflation
- Tariff increases
- Cost of increased capex
- Changes in baselines
- Changes in Council priorities
- Key parameters and assumptions
 - Contain operating expenses within inflation limits
 - Note must be taken that the CPIX estimation for the 2009/2010 financial year and two outer years will only be available after the DORA Publications. These publications will only be available at the end of February 2009.
 - Salary increases:

- ♣ 2009/10, 2010/11 & 2011/12 - Limit to inflation (no agreement yet on salary increase)

- Repairs and Maintenance 2% above inflation

- Cost implication of the increased capex (impact on the operating budget)
- Current audit outcome
- Other Provincial and National priorities that affect the District

2. CAPITAL BUDGET (CAPEX) PREPARATION

- The project should reflect the projected total cost of the project covering all financial years until completion.
- The future operational costs and revenue on the projects should be quantified.
- Major projects should be split into major assets category.
- It is necessary to indicate whether the project is a new project/asset or an existing project/asset and the amount provided has to be captured in the appropriate column.
- Please ensure that the funding from public contributions is based on the grants that have been applied for and where approval has been obtained.
- Please note that all funding including public contributions or donations should be appropriated into the budget for approval by Council. Funds spent and not appropriated into the budget will constitute unauthorized expenditure.

The Performance Management System has to map out those activities (costed) that will be carried out in support of the IDP and strategic objectives of the municipality.

The other requirement is that for capital assets that are to be acquired, the source of funding for those assets must be identified as part of the budget submission to National Treasury. Where funding of some of the assets comes from the province, written commitments or agreements must accompany the budget to National Treasury for approval. If the source of funding cannot be ascertained beforehand or no documentary proof can be provided, those projects or assets should not be included in the budget. Only assets/projects with confirmed sources of funding will be approved for inclusion in the budget.

Cash flows for assets/projects together with implementation plans must be provided together with your budget submission. These will assist the Treasury Cluster in planning and allocating realistically correct amounts in each year and by month in terms of the Medium Term Income & Expenditure Framework (MTIEF).

The Capital budget envisage being spent from own funding will no longer be part of the operating expenses as a result of the change in financial accounting. The capital budget will have to be financed from the Capital Reserve fund.

Capital – Furniture & equipment. (Based on needs assessment)

Furniture & Equipment needs must be budgeted for by each department based on a motivational needs assessment. No upgrades on existing furniture should be budgeted for (for example: replacing of ordinary chairs with leather chairs), as it is regarded as wasteful and fruitless expenditure according to the MFMA. Furniture need to be standardized according to specific post levels.

Capital – Computers & Printers. (Based on needs assessment)

Computer & Printer needs must be budgeted for by each department based on a motivational needs assessment.

Capital – Vehicles. (Based on needs assessment)

Vehicles needs must be budgeted for by the Fleet Management unit based on a motivational needs assessment.

Capital – Infrastructure (Projects). (Based on needs assessment)

Infrastructure projects must be limited to own assets and cannot include asset needs of the Local Municipalities. Council will have to treat capital projects done on behalf of the Local Municipalities as a grant contribution to the Local Municipalities. This projects must also be limit to be from own funding and no external loan funding can be utilize for the financing of capital projects on behalf of the Locals as this will contradict the MFMA act.

3. OPERATING BUDGET (OPEX) PREPARATION

Underlying budget principles

- In terms of MFMA Section 87 (5) the District is not permitted to budget for a deficit, therefore Departments must produce a balanced budget.
- Overspending on a vote constitutes unauthorized expenditure

- Resources should be directed towards service delivery functions and where they are mostly needed
- Ensure that administrative and non-service areas (admin and support functions) have been reduced and savings identified should be used towards service delivery areas.
- Revenue forecasts should be neither overly optimistic nor overly conservative.
- Further manage down general expenditure and contracted services. The choice of a service provider should be based on which service provider can provide the service most effectively at lowest cost.
- Maintain all assets at a level adequate to protect the capital investment and minimize future maintenance and replacement costs.

Some of the controllable expenses like overtime, shift allowance, etc, must be brought down to a minimum ,the maximum number of 40 hours per month per staff qualifying for overtime will be paid and must be budgeted for. Any excess hours will not be paid but staff concerned should instead be given time off in lieu of those excess hours.

We need to be informed of those employees who will be selling their long service leave days during the course of the year and the month in which they will be selling to help us plan our cash flow better. **Clusters are urged to provide Treasury with any other information that in their view might have a bearing on the coming budget that they think Treasury should consider.**

Still one of the biggest problems Treasury has is around telephone expenses with regards to land lines. Cellphone expenses can easily be controlled. What we are proposing without being seen as dictating, is that each cluster's telephone budget in respect of land lines should average R300 per month per person. You know better the staff that needs more allocation than others in terms of their respective duties, but overall, the average should be limited to R300/person/month. We have arrived at this proposal bearing in mind that there is staff that has been allocated a limit on cellphones. Should you have any queries regarding the above, please feel free to let us know together with your suggestion.

Templates that you have to utilize in the preparation of your budgets for the medium term income and expenditure framework for the 2009/2010, 2010/2011 & 2011/2012 financial years will be forwarded to you soon.

NB! Please do not utilize stocks and materials budget to purchase items of capital nature. Stocks and materials vote should be utilized for consumables only. For water, electricity, sewerage, refuse removal, one Cluster within a particular building

should budget for the above, for instance, at MSDC one Cluster should make an allocation, at the Main Building Treasury will budget, etc.

BUDGET CYCLE ATTACHED as “Annexure A”

The following is an explanation of expenses and how they should be budgeted for :

Cost Items

Salary Cost (Incremental – determined by SALGA)

Departments should send their staff planning to the Treasury Cluster Department accompanied by their approved organograms.

Advertising (Zero based)

The vote should be used to budget for advertising costs in the print and electronic media. For hiring of new employees this vote will be used by HR, all the other clusters should give HR their needs in this regards. All Clusters are expected to budget for adhoc adverts e.g. tenders.

Bad Debts

The Treasury Cluster will budget for bad debts to be written off.

Bank Charges.

The Treasury Cluster will budget for bank charges based on previous year's actual cost.

Computer Systems. (Zero based)

The vote number will be used for sourcing computer soft ware. The Information Management department should be consulted on this vote for them to budget accordingly.

Contracted Services (Zero based)

The vote will be used to pay for service providers' rendering a service to your Cluster e.g. security, cleaning or any other service that is contracted for. Note that Steiner services for main building will be budgeted for by HR.

Computer Requirements (Zero based)

The information for computer requirement will be submitted to the Information Management department by respective departments. The requirements will be costed and the IM department will budget for your computer consumables.

Congress & Meetings (Zero based)

The vote will be used to pay expenses incurred for conferences and meetings. The budget should be based on annual conferences to be attended every year. Let us not budget for conferences we don't know whether they will happen.

Workshops (Zero based)

The vote will be used to pay expenses incurred for workshops organized by the respective department. The budget should be based on annual conferences to be attended every year. Let us not budget for conferences we don't know whether they will happen.

Consultation Fees. (Zero based)

The vote will be used to pay for consulting fees charged to different Clusters. Clusters are encouraged to budget individually for their needs on this line item as opposed to centralizing the budget in the MM's office in the past two years.

Disaster Recovery Cost (Historical needs)

The vote will be used by the Disaster Management and IT departments.

Donations and Grants. (Zero based)

The vote will be used by the Mayors office and the MM's office for grants and donation to be made by council.

Water, Electricity, Sewerage, Refuse Removal (History & growth rate)

One department in each building should budget for the above expenditure. Treasury will budget for the whole main building.

Entertainment-External (Zero based)

This vote number should only be used by Executive Directors, for external entertainment only.

Office Refreshment (Zero based)

The vote will be used for purchases of groceries (e.g. tea, coffee not cleaning materials and not external entertainment) for the Cluster. Each Cluster will budget for this vote, but the figures should be kept minimal. The limit for this line item is R 1000.00 per month for ordinarily sized department, excluding EMS and Licensing.

Catering (Zero based)

The vote will be used for purchases of food for functions. Each Cluster will budget for this vote, but the figures should be kept minimal. There's no need to procure food for meetings with internal staff

and it is recommended that only finger lunch should be served during meetings with external stakeholders.

Collection costs (Treasury based on historical fees taken into account abolishment of RSC levies)

Treasury Cluster will budget for this expenditure when attorneys charge us for collection of RSC levies as well as ad hoc collections from agents operating outside of the district.

Legal Charges. (Zero based)

The vote will be used by Legal department to budget for legal services procured from outside (centrally).

License Fees. (Historical & growth taking into account new needs)

The vote will be used to pay for license fees, on software and other utilities requiring licenses (e.g. TV license, Jutastat). Vehicle license should be budgeted for under vehicle maintenance.

Marketing and Promotion. (Zero based)

The vote will be used for the marketing and promotion of council services or products. The vote will also be used for PR activities.

Membership Fees. (Historical & growth)

The vote will be used to pay for membership fees paid to institutions authorized by council like SALGA and also for employees to affiliate to different bodies of their professions (e.g. SAICA).

Insurance Premium / Insurance Excess Payment (Based on claims history)

The vote will be used by the Treasury Cluster.

Intergovernmental Relations (Zero based)

The vote will be used by the Mayor's office and Municipal Manager's office for intergovernmental costs.

Periodicals/Reference Books/Magazines. (Zero based)

The vote will be used for subscribing to magazines and periodicals or newspapers. The vote could also be used for purchases of books relevant to the clusters concerned.

Postage. (Needs base on history & new requirements)

The vote will be used by Corporate Services & Treasury Cluster for postage. All other departments are expected to post their letters or packages through records department.

Public Participation. (Zero based)

The vote will only be used where the function resorts namely: Mayor's office & Municipal Managers' office and Planning & LED.

Rental Equipment. (Needs base on history & new requirements)

The vote will be used for payment of operational leases on equipment. Need to differentiate between an operating and finance lease.

Rental Property. (Needs base on history & new requirements)

The vote will be used for payment of lease of property.

Skills Development Levy. (Linked to salary budget)

The Treasury Cluster will budget for this levy using the basis provided by SETA. The formula provided for the calculation of the skills development levy, which equals to 1% from the salary bill must be provided and forms part of the organizational requirements.

Stationary/Printing and Binding. (Zero based)

The vote will be used for the purchases of stationary and printing. The Cluster should assess their stationary needs and not referring to their previous year consumption. The vote should be used for printing & binding of materials by outside suppliers. This should be in line with cluster's plans.

Stocks & Material. (Zero based)

The vote will be used for the purchases of small items, example grocery, replacement of office keys etc. The Cluster should assess their needs and not referring to their previous year consumption.

Subsistence and Travel (Zero based)

The vote will be used for traveling and subsistence cost including adhoc travel claims.

Telephone Office. (Needs base on history & new requirements)

The vote will be used to budget for telephone costs on land line usage. We should budget R300 rand for each employee. The employee cost exceeding R300 will be recovered from the employee concerned unless motivated appropriately. The vote will be an expenditure vote. An income vote will be created for telephones costs recovered from employees in the income budget.

NB: Previous year's expenditure trend on this line item requires improvement and proper accountability and responsibility by Management.

Telephone – Cell phones (needs base on history & new requirements)

The vote will be used to budget for telephone costs on cellphones. We should budget for employees on council cell phone scheme.

Training (Zero based)

The vote will be used by Human Resources department to budget for training needs of council employees based on their skills plan. Specialized training should be budgeted for by the respective Clusters concerned. This line item should be costed properly taking into account the specific courses or workshops to be attended by staff concerned. Human Resources Department to endeavor that 1% of the wage bill is recovered from the SETA, which can contribute to Corporate and Operational training framework.

Transport Fuel and Oil. (Needs base on history & new requirements)

The vote will be used for purchases of Fuel and Oil by the Fleet Management Unit.

Uniform. (Zero based)

The vote will be used to budget for purchases of uniforms, e.g. EMS and Mayors Office, and any other department making use of uniforms.

Casualty Contribution. (Based on WCA report submitted to Compensation Commissioner)

The line item will be budgeted for by the Human Resources department taking into account the legislative requirements.

Insurance Premium. (Treasury – based on history and future needs)

The Treasury Cluster will budget for this vote after taking into consideration the insurance risk portfolio.

The excess payment will also be budgeted for by the Treasury Cluster.

The Treasury Cluster will budget for items less than R3 000. This vote will be used for self insurance.

Interest – External borrowing. (Treasury – based on loan schedules)

The Treasury Cluster will budget for this vote taking into account the current obligations.

Grants and Subsidies Paid. (Based on grant transfers to Local Municipalities)

The vote will be used for grants and subsidies paid. Each Cluster should determine which grants should they give to local municipalities within allocated resources.

Maintenance – Buildings, Fences & Sites. (Based on needs assessment)

The vote will be used for the maintenance of all buildings, fences & sites under the control of the Municipality. Each Cluster should present their needs to the Facility management unit for budgeting purposes.

Maintenance – Furniture & Equipment. (Based on needs assessment)

The vote will be used for the maintenance of all movable assets and equipment. Each Cluster should budget for their needs based on the state of their assets. The Information Department will however budget for the maintenance of computers and computer related items. Copiers and faxes is not computer related items and need to be budgeted by the relevant department.

Maintenance – Networks. (Based on needs assessment)

The vote will be used for the maintenance of Networks. The Cluster responsible for the network should budget for their needs based on the state of the asset.

Depreciation. (Based on existing assets depreciation within each section)

The vote will be used for the depreciation of assets based on their useful life. The Treasury Cluster will do the calculations based on the asset register.

Income Votes. (Based on historical figures taken into account any tariff increases)

This votes need to be used for the budgeting of all envisage income based on historical information, but need to be realistic. Clusters receiving income need to budget for these incomes within their own budgets.

BUDGET APPROACH

In the coming budget we will be forced to specify the limits each Cluster has to budget within based on the year to date expenditure and other commitments Council has committed itself into, e.g. loans, funding of capex, etc. Treasury will also be having meetings with respective Clusters to establish the extent of progress in relation to Budget and this process will mainly be driven by CFO, Director (Financial Management) and Senior Accountant (Budgeting and Reporting).

A schedule will be forwarded to you as guidelines in terms of thresholds Clusters have to budget within. No Cluster is permitted to budget outside of the proposed guidelines unless a proper motivation is submitted which should be in support of the IDP and GDS. Clusters will from this coming budget present budgets and justify them in terms of their Business Plans and the overall strategic focus (IDP) of this Council. It is important that deadlines are adhered to as strictly as possible.

The key dates for the 2009/2010 MTREF Budget is as follow:

- 31 March 2009 - The Mayor is required to table the draft 2009/2010 MTREF Budget, the revised IDP and the draft SDBIP. The accounting officer must, on the same day, publish the budget on the website of the municipality in terms of section 75 of the MFMA and forward information to stakeholders for comment.
- 1 April 2009 – 30 April 2009 - The Mayor and Council are required to manage the public participation programme with all communities within its municipality and call for public submissions and convene public hearings.
- 1 May 2009 – 30 May 2009 - The Council consider any submissions and comments that are submitted by organs of state, e.g. district and local municipalities, provincial government, national government and the local communities on the 2009/2010 MTREF Budget and the revised IDP.
- 16 May 2009 – 31 May 2009 - The Mayor tables the final 2009/2010 MTREF Budget, IDP and SDBIP for Council approval by 31 May 2009.
- 13 June 2009 - The accounting officer submit the approved documentation to the National and Provincial Treasuries and relevant organs of state with Appendix A, B and C and update the performance contracts of senior staff accordingly.

Process plan in order to submit the final budget for approval will be as follow:

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|------------------|---|
| 13 February 2009 | Draft budget inputs to be submitted to the Treasury Cluster |
| 05 March 2009 | First Draft budget to be completed |
| 25 March 2009 | Council to approve draft budget |
| 30 April 2009 | Finalization of 2009/2010 Budget |
| 27 May 2009 | Mayor tables the final 2009/2010 MTREF Budget, IDP and SDBIP for Council approval by 31 May 2009. |

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CHIEF FINANCIAL OFFICER